

**REPORT OF THE AUDIT OF THE
JACKSON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE JACKSON COUNTY SHERIFF

**For The Year Ended
December 31, 2005**

The Auditor of Public Accounts has completed the Jackson County Sheriff's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$551 from the prior year, resulting in excess fees of \$850 as of December 31, 2005. Revenues decreased by \$89,543 from the prior year and expenditures decreased by \$90,094.

Report Comments:

- The Sheriff Should Expend Fee Account Monies For Allowable Purposes
- The Sheriff Should Expend Forfeiture Account Monies For Allowable Purposes
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were not adequately insured or collateralized by bank securities on November 9, 2005, leaving \$35,696 of public funds at risk; however, the Sheriff had a written security agreement with the depository institution as required.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
COMMENTS AND RECOMMENDATIONS	11
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tommy Slone, Jackson County Judge/Executive
Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Jackson County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 1, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Tommy Slone, Jackson County Judge/Executive
Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Expend Fee Account Monies For Allowable Purposes
- The Sheriff Should Expend Forfeiture Account Monies For Allowable Purposes
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Jackson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized flourish at the end.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 1, 2006

JACKSON COUNTY
TIM FEE, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

Federal Grants		\$	4,143
State Grants			33,373
State - Kentucky Law Enforcement Foundation Program Fund			8,875
State Fees For Services:			
Finance and Administration Cabinet	\$	3,475	
Cabinet For Human Resources		<u>177</u>	3,652
Circuit Court Clerk:			
Sheriff Security Service			8,375
County Clerk - Delinquent Taxes			1,195
Commission On Taxes Collected			100,949
Fees Collected For Services:			
Auto Inspections		2,450	
Accident and Police Reports		134	
Serving Papers		13,360	
Carrying Concealed Deadly Weapon Permits		<u>6,765</u>	22,709
Other:			
Add-On Fees		19,631	
Highway Safety Grant		3,414	
Reimbursement from Fiscal Court		500	
House Bill 413		<u>2,607</u>	26,152
Interest Earned			<u>50</u>
Total Revenues			<u>209,473</u>

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
TIM FEE, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2005
(Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	19,604
KLEFF Salaries		6,975
Other Salaries		25,450
Overtime		1,135

Contracted Services-

Advertising		239
-------------	--	-----

Materials and Supplies-

Office Materials and Supplies		3,919
Uniforms		4,114

Auto Expense-

Gasoline		25,668
Maintenance and Repairs		8,705

Other Charges-

Conventions and Travel		224
Dues		325
Postage		476
Equipment		2,816
Carrying Concealed Deadly Weapon Permits		5,360
Miscellaneous		2,384

Capital Outlay-

Office Equipment		470	\$	107,864
------------------	--	-----	----	---------

Debt Service:

Bank Loan - Vehicle		6,334		
Notes		26,000		
Interest		2,091		34,425

Total Expenditures 142,289

Less: Disallowed Expenditures

Gifts	\$	567		
Late Fees		100		
Charitable/Civic Contributions		70		737

Total Allowable Expenditures 141,552

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY

TIM FEE, SHERIFF

STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

(Continued)

Net Revenues	\$ 67,921
Less: Statutory Maximum	<u>67,071</u>
Excess Fees Due County for 2005	850
Payment to Fiscal Court - February 14, 2006	<u>113</u>
Balance Due Fiscal Court at Completion of Audit*	<u><u>\$ 737</u></u>

*Note: The Sheriff presented a check to the County Treasurer for the balance due Fiscal Court on September 1, 2006.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 9, 2005, \$35,696 of public funds were exposed to custodial credit risk as follows:

- Uninsured and unsecured - \$35,696

Note 4. Note Payable

On June 30, 2003, the Jackson County Sheriff entered into a loan agreement with Citizens Bank for the purchase of a cruiser. The original principal balance of the loan was \$16,600 and the interest rate was 7.9%. The terms of the loan required 36 monthly payments of \$519.52 to be paid in full on June 30, 2006. During 2005, the Sheriff paid \$5,745 in principal and \$489 in interest. As of December 31, 2005, the principal outstanding was \$3,047 and scheduled interest payments remaining totaled \$70.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 5. Grants

A. High Intensity Drug Trafficking Area Grant

During 2005, the Sheriff's office received an Appalachia High Intensity Drug Trafficking Area grant (HIDTA) from the Office of National Drug Control Policy to supplement salaries and purchase gasoline. The Sheriff received and expended \$33,373 during the year.

B. Governor's Highway Safety Program Grant

The Jackson County Sheriff's Office was awarded a Governor's Highway Safety Program grant through the Kentucky State Police and the Commonwealth of Kentucky. The grant provides funding for equipment and personnel in order to decrease the number of fatal and serious injury crashes due to speeding, impaired driving, driver inattention, and lack of seatbelt usage. During 2005, the Sheriff received and expended \$3,414. Of the funds expended, \$2,816 was used to purchase equipment and the remainder was used to fund personnel activities such as overtime and patrolling.

C. Forestry Grant

The Jackson County Sheriff's office entered into a Cooperative Law Enforcement Agreement with the U.S. Department of Agriculture, Forest Service, and Daniel Boone National Forest on April 1, 2005. The agreement states that the Sheriff's office can obtain reimbursement, up to a set amount, for patrolling activities in the Daniel Boone National Forest in an effort to reduce illegal activity on federal land.

D. Kentucky Law Enforcement Foundation Program Fund

The Jackson County Sheriff's Office was awarded a grant under the Kentucky Law Enforcement Foundation Program Fund (KLEFPF) from the Commonwealth of Kentucky Department of Criminal Justice Training. Under the program, an eligible officer is entitled to receive up to \$3,100 annually as provided in KRS 15.460. During 2005, the Jackson County Sheriff's Office received \$8,875. All funds received were expended for the intended purpose.

Note 6. Forfeiture Account

The Jackson County Sheriff maintains an account for the purposes of receiving assets forfeited to the Commonwealth as a result of legal proceedings. Expenditures from this fund are to be for law enforcement activities. The beginning balance in the Forfeiture Account was \$225. During 2005, the Sheriff received \$5,182 in forfeited funds and expended \$5,153, leaving a December 31, 2005 ending balance of \$254.

COMMENTS AND RECOMMENDATIONS

JACKSON COUNTY
TIM FEE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Expend Fee Account Monies For Allowable Purposes

During our testing of the Sheriff's fee account for 2005, we identified \$737 of disallowed expenditures. Technical Audit Bulletin 93-001, Section 3, enumerates 13 categories of expenditures that are not allowable. Additionally, KRS 64.850 prohibits fee officials from expending "public funds for any purpose other than that for which they were received . . ." The following provides a breakdown of the 2005 expenditures that are not considered allowable:

- Invoices totaling \$567 paid for flower arrangements;
- Payments totaling \$100 of late payment fees; and
- Payments totaling \$70 for contributions to local civic/charitable organizations.

We recommend the Sheriff expend fee account monies in accordance with the provisions of KRS 64.850. We also recommend the Sheriff ensure all payments are made timely in order to avoid late fees. The Sheriff has deposited personal funds in the amount of \$737 into the 2005 fee account in order to reimburse the account for these disallowed expenditures.

Sheriff's Response:

We will contact GOLD to get further guidance on expenditures.

The Sheriff Should Expend Forfeiture Account Monies For Allowable Purposes

During our testing of the Sheriff's forfeiture account, we noted a disallowed expenditure totaling \$627 for the purchase of hams for employees during the holidays. KRS 218A.435(12) states that forfeited funds are "to be used for direct law enforcement purposes," and 500 KAR 9:010(6) defines "direct law enforcement purpose" to mean any activity of a Sheriff's office "which materially facilitates enforcement of the laws of the Commonwealth of Kentucky."

We recommend the Sheriff expend forfeiture account monies in accordance with the provisions of KRS 218A.435(12), 500 KAR 9:010(6), and the corresponding court order. The Sheriff deposited personal funds in the amount of \$627 into the forfeiture account in order to reimburse the account for this disallowed expenditure.

Sheriff's Response:

The court order gave this money to the Sheriff's office. There were no specific stipulations on how it was to be used. We were unaware that the expenditures from this account were not allowable.

JACKSON COUNTY
TIM FEE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare daily bank deposit to daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet and receipts ledger.
- The Sheriff should reconcile monthly reports to source documents and receipts and disbursements ledgers.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should approve all disbursements and sign all checks.

Sheriff's Response:

We will attempt to implement these controls.

PRIOR YEAR:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tommy Slone, Jackson County Judge/Executive
Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Jackson County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated September 1, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Jackson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Jackson County Sheriff's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Expend Fee Account Monies For Allowable Purposes
- The Sheriff Should Expend Forfeiture Account Monies For Allowable Purposes

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 1, 2006

